



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

July 9, 2007

The Honorable Robert Blendu, Chair
Joint Legislative Audit Committee

The Honorable John Nelson, Vice Chair
Joint Legislative Audit Committee

Dear Senator Blendu and Representative Nelson:

Our Office has recently completed a 12-month followup of the Arizona Department of Transportation—Aspects of Construction Management regarding the implementation status of the 16 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in July 2006 (Auditor General Report No. 06-05). As the attached grid indicates:

- 8 have been implemented;
- 7 are in the process of being implemented, and
- 1 has been partially implemented.

Our Office will continue to follow up at 6-month intervals with the Department on the status of those recommendations that have not yet been fully implemented.

Sincerely,

Melanie M. Chesney, Director
Performance Audit Division

MMC:Acm
Attachment

cc: Victor Mendez, Director
Arizona Department of Transportation

**ARIZONA DEPARTMENT OF TRANSPORTATION
ASPECTS OF CONSTRUCTION MANAGEMENT
12-Month Follow-Up Report To
Auditor General Report No. 06-05**

FINDING 1: ADOT should optimize internal resources to reduce consultant usage

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
1. To better ensure that it develops competency internally and reduces costs, ITD should aggressively seek to:		
a. Fill existing vacant employee positions with competent staff;	Implementation in Process	ADOT submitted a fiscal year 2008 budget request for a 5 percent increase in engineering and technical classifications to bring salaries closer to the private sector and received funding for a 5 percent performance pay increase. ADOT continues recruiting efforts at universities.
b. Identify ongoing, recurrent work related to project design, construction management, and other similar functions currently provided by consultants and perform these services in-house when appropriate; and	Implementation in Process	ADOT identified four areas, bridge inspection, right-of-way plans, environmental planning, and airport development, where it would be more cost-effective to conduct work with employees rather than using consultants. ADOT reported receiving 21 of 22 new positions requested in its fiscal year 2008 budget request which ADOT estimates will save more than \$593,000 annually. ADOT is continuing to review supplemental service contracts to identify more consultant work that could be done cheaper by in-house staff.
c. Continue to develop strategies to recruit and retain staff, and consider mentoring, succession, and other programs to help reduce the impact of employee turnover and retirements.	Implemented at 6 Months	

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Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
2. To better ensure that it identifies and maintains the proper level of consultant usage, ITD should:		
a. Develop division-wide criteria for deciding when to use a consultant to complete projects or tasks; and	Partially Implemented	ADOT has developed criteria for deciding when to use consultants, but the criteria is too general and not useful to identify which tasks can be done with internal resources, if they were available, and which tasks should be done only by consultants. ADOT reported that management staff will meet to determine if ADOT will take further action to fully implement the recommendation.
b. Develop methods of tracking and monitoring consultant usage, such as compiling data on the dollar amount, quantity, and type of projects or services completed by consultants, and reasons for using consultants or other relevant information, and evaluate information to identify consultant services that could be more cost-effectively provided by in-house employees.	Implementation in Process	ADOT is in the process of making revisions to its Contract Management System (CMS) database to enable more efficient and effective monitoring and tracking of consultant usage. When these revisions are completed, CMS will provide better reports/data which ADOT believes will enable management to make better determinations regarding the need for consultants.

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FINDING 2: ITD should improve implementation and documentation of inspection process

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
1. To ensure that the checklist results are determined in a consistent manner, ITD should assess how field inspectors and independent QA inspectors are interpreting the checklist items. Further, ITD should provide training and/or develop guidelines to help field inspectors and independent QA inspectors interpret the checklist items in a similar manner.	Implementation in Process	ADOT has established a cross functional team to evaluate the checklist system and recommend improvements. ADOT is developing a reference guide to assist inspectors with correctly entering information on reports in a consistent manner.
2. To comply with department policy and FHWA inspection practices, ADOT should ensure that field inspectors document inspection results, including: <ul style="list-style-type: none"> • Whether work conforms to plans and specifications; • Whether problems occurred; and • Problem resolution. 	Implementation in Process	ADOT has established a cross-functional team to study documentation requirements and to develop a training class. ADOT plans to have all its field technicians complete the training class by August 1, 2007.
3. To comply with department policy, ADOT should ensure that field inspectors complete and submit checklists as part of their daily diaries, and document that critical and major items were addressed.	Implemented at 6 Months	

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Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
4. To help ensure that checklists meet field inspectors' needs and contain applicable content, ADOT should consider a checklist revision process that includes knowledgeable field inspectors.	Implementation in Process	ADOT has developed a procedure to periodically review checklists and when revisions are needed to establish a review team that will include field inspectors. ADOT has reported that it will revise its <i>Construction Manual</i> to reflect the new process.
5. ADOT should require followup on independent QA inspection results that identify critical or major noncompliance.	Implementation in Process	ADOT has developed a new definition of "critical" noncompliance and has developed a closeout process to ensure that critical or major noncompliance issues have been addressed, and reported that it plans to revise its <i>Construction Manual</i> to reflect these requirements. ADOT stated that it is also developing a report to provide resident engineers with quarterly information on the most common violations.

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FINDING 3: ADOT needs to improve audits of design and construction contracts

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
1. The Office should continue its efforts to:		
a. Fill vacant positions and, if necessary, develop new recruitment strategies. If the Office cannot fill positions with experienced auditors, it might consider hiring auditors without cost accounting experience and providing training or offering an internship program.	Implemented at 6 Months	
b. Implement performance measurements to monitor its production and work activities. This should include the number and types of audit requests received and conducted, the timeliness of completing audits, and audit results.	Implemented at 6 Months	
c. Ensure that the highest-risk projects are audited by applying a risk-based approach to selecting and conducting audits that considers items such as staffing available to complete audits, dollar thresholds at which audits should be conducted, and office audit requirements for each type of contract.	Implemented at 6 Months	

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Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
d. Replace its database system and obtain a system that can track and schedule workload and measure production.	Implemented at 6 Months	
e. Annually estimate its workload and prioritize its audits based on available resources. This plan should be documented in an annual audit work plan and revised with changing circumstances.	Implemented at 6 Months	
f. Revise its audit manual to reflect changes in business practices and ensure that it provides adequate audit coverage of department projects.	Implemented at 6 Months	